A CENTRAL BANK SYSTEM AND THE UNITED STATES OF AMERICA

IN dealing with the problem of a "Central Bank of the United States," one should properly discuss first the advantages and disadvantages of the central bank system in general, and then the particular problem of a central bank of the United States.

For the purpose of this discussion, however, I may take it as a matter of common agreement, that in the present state of our civilization, wherever circumstances permit of its establishment, the central bank system is the most suitable and efficient. When the millennium comes, when the reign of eternal peace is ushered in, and when competing armies and navies no longer exist, we may see a system which will centralize all the gold of all countries into one big international reserve, or a system which can be operated without the use of any gold at all, as some theorists, like Prof. Knapp, of Strassburg, foresee. I, for one, do not believe that either we or our great-grandchildren shall have to discuss these possibilities as more than theoretical questions.

While we all hope that the arbitration movement will continue to grow and that wars may in the future become less and less frequent, the possibility of struggles among nations always remains. Hence nations will never consent entirely to abolish their armies and navies, and just as little as they will give up their reserves of powder and guns, will they agree to give up their reserve of gold. This is important; for while, within the confines of our own political boundaries, our present money system acts as a national clearing house—crediting to each of us the net result of his work, and accomplishing this practically without the actual use of gold, by means of bank accounts or of checks to bearer, *viz.*, bank notes,—still ulterior payments between nations, whenever all other means

of settling a debit balance with a creditor nation have been exhausted, must be made in gold.

To meet the immense volume of demand obligations, which are, by their terms, payable in gold, there exists in actual gold under a modern banking system an amount equal to but a small fraction of the total amount of gold debts. This system is therefore safe only if the credit of the banks is so strong as to inspire a confident reliance that even if actual gold in large quantity is at one and the same time demanded from one or from several banks, the metal will not be needlessly and wastefully hoarded, the public and the banks themselves being confident that money so withdrawn will be redeposited, so long as there remain some institutions the credit of which cannot be shaken. Furthermore, the system must be so constituted that in case of a demand for gold each solvent bank will pay out the metal freely and boldly, recognizing this as the sole method of stopping an internal drain, and of preventing it from degenerating into a panic. In addition, the system must provide for a means of successfully combating the export of gold, and of encouraging its import, when necessary, through the medium of the discount rate. This again presupposes the existence of a large volume of safe commercial paper endorsed by, or bearing the acceptance of, well-established banks or bankers, paper which is salable at any time and which, by the customs of the country, is freely purchased or resold by financial firms and institutions, as their daily needs develop. Finally, the laws governing and safeguarding the creation and collection of such paper must be so clear and uniform and the collection of such paper in every part of the country must be so easy, as to make an investment in such paper not only the safest, but also the quickest asset of a bank. These conditions actually prevail in countries enjoying a powerful and well-organized central bank.

There is a very old English phrase saying, " John Bull can stand anything, but he cannot stand 2%." Since this phrase originated, centuries ago, John Bull has seen lower rates, but none the less it remains true to-day. It means that money seeks to draw a fair return of interest, and it illustrates, fur-

thermore, why a period of too easy money invariably brings in its train a period of expansion and overspeculation. With both phases the central bank is intimately connected. As the meteorologist draws his chart showing the points of high and low pressure, and from these deduces the probabilities of wind and weather, so a map could be drawn showing how money, among financially well-organized nations, flows with absolute certainty from the point of low interest rates to the point where a higher return can safely be secured. And just as low pressure is not the only factor determining atmospheric transformations, but as temperature and humidity are important elements as well, so in the movement of money also there are important local questions to be taken into account. Such are the rates of exchange which, as the case may be, either add to the interest rate to be earned in another country, or else decrease the return to be received. There is furthermore the question of the degree of confidence enjoyed by each country.

As the insurance premium is commensurate with the risk of each transaction, so money exacts a larger return from investment in countries which are considered financially less secure or in which, owing to a smaller or more irregular market, the investment cannot be so quickly resold. The total amount which the investor is willing to place in each particular country will depend upon these considerations.

An investigation of European conditions will show that money moves freely, according to this principle, between the larger and well-regulated European financial centres. In the face of political antagonisms money will flow to that centre where the highest interest return can be received, provided that confidence in that particular country is so strong that the higher rate does not act as a deterrent but as an inducement. Thus French gold began to flow into England when the English bank rate went up to 7% at the end of last year. French capital at the attractive interest rate was invested in English bills to such a degree that the balance between the two nations turned in favor of England, and had to be settled by shipments of gold. In a similar way hundreds of millions of foreign capital move into Germany when rates become remuner-

ative there, and leave that country again when the difference in rates, the margin, as the banker calls it, disappears.

We cannot too strongly grasp this idea of the power of the bank rate to protect and to attract gold. Without such power the central bank system is useless; for it would collapse when the first drain occurs.

How is it possible, it is often asked, for England to do this enormous business which comes to it as the world's clearing house, with so small an amount of gold? The answer generally given is that it is possible only through England's power to command the gold—thus implying the idea of immense balances due to England, which are called in when needed. While this at certain times may be correct, it does not state the most important cause, namely, England's credit, the great confidence commanded by the English banks and by their paper and the knowledge that that paper can always be resold without any difficulty whatsoever, and that, if required, it can be collected in actual gold. England's credit and her ability to adjust her rates of interest render her system possible and effective. Between the indebtedness of one nation to another and the actual settlement of that debt in gold there lies as a buffer the borrowing power of the banking communities of the respective countries. Nations financially well-organized will find that for a moderate inducement money will flow to them freely for the purchase of securities, or for the purpose of short-time investment. This buffer is strong in England, as it is weak in the United States. We have no modern and readily salable paper which in critical times we can offer to foreign markets, and while the European banks work with fluctuations within fractions of 1%, our primitive methods often mean that before the tide can be turned we must suffer fluctuations of interest rates of 100% and a fall in the value of securities to bankruptcy prices.

Just as important as the protective power of the central bank is its preventive power. When money becomes too abundant there is always danger that it may leave the country, and also that speculation may be unduly stimulated. It is during such a period of general exuberance and expansion

that the central bank, if wisely managed, will draw in its funds and prepare for the coming storm; to accomplish this it will seek to stiffen money rates, and, by sounding its note of warning, it will often avert the coming crisis or modify it into that normal form of natural reaction which inevitably follows any period of great prosperity and expansion.

On the other hand, a perfect central bank system will protect the country not only from too easy money, but also from too high rates during those periods when money is in active demand, as for instance, in our country, during the crop season. During such times a perfect central bank system will, without unduly increasing the rate, provide freely for legitimate demands. It will be prepared to let its reserve decrease materially, knowing by experience that the notes issued in excess of its normal circulation will quickly return after the particular business of a given season has been done. Thus we see that the end of December annually brings with it a large increase in the note circulation of the German Reichsbank, which notes, however, quickly return for redemption during the first two weeks in January.

From the banker's point of view, the chief features and advantages of a central bank system are the following:

(1) The protection and replenishment of the country's gold holdings.

(2) The creation of an elastic currency which tends to prevent too low money rates in times of abundance, as well as too high rates in times of money scarcity.

(3) The establishment of a broad market for commercial bills. This market at bottom owes its existence and its importance to the central bank's readiness to discount such bills at any time, thus making the commercial bill the best quick asset of a bank.

(4) The fact that it acts as a bed-rock foundation for confidence in times of stress, because it centralizes the reserves of the country, thus rendering possible their free and effective use.

(5) The fact that it creates a central institution able to deal

with other nations, in case exceptional measures become advisable, and with which other nations, even in times of the worst panic, can negotiate to furnish or obtain large loans of gold, as has frequently been the case as between France and England.

The shortest and most striking way to illustrate the shortcomings of our system will probably be to review our experience of last year. We had, like Europe, gone through a period of rapid expansion, probably over-expansion, and a natural reaction was bound to come to us, as to Europe, and it did come to both. Expansion was probably more acute in Germany than with us. Why then did Germany, much weaker than we, weather the storm without a panic, while we went into a most disgraceful state of utter helplessness and temporary bankruptcy?

We may leave aside the ephemeral question as to which "straw" is was that "broke the camel's back." After a long period of prosperity, there will almost always develop some point of weakness where the break will first occur, and, as a rule, that break and the ensuing strain will bring down other parts of the structure affected by dry rot. Some "bubbles" were pricked in Germany also, and some ugly failures occurred there, but they did not create any panic. Distrust did not spread in Germany, because the general system, being what it is, keeps unshaken the belief that against good assets good money will always be available, and so "hoarding" remains an unthinkable phenomenon. Furthermore, there was unimpaired confidence that so long as the Reichsbank was in general touch with the situation, though some things might be rotten, they would remain the exceptions, and that it would be impossible for all or even any large proportion of the financial institutions to be unsound.

We shall not deal with the question whether with us bad judgment and mismanagement had been so extreme that the resultant outbreak of distrust was, as a natural consequence, bound to be as violent as it proved to be, or whether artificial fanning of the flame by agitation, sensation, and exaggeration

played any part in the unfortunate development, or whether such a complete collapse of credit would under any circumstances have been possible had the legal foundation on which the whole industrial and financial structure rested been firmly and equitably constructed and had it been less subject to violent upheavals.

Whatever causes may have combined in the United States to bring about the crisis of 1907, it cannot be doubted that it would never have reached such appalling dimensions had it not been for the lack of elasticity in our currency, the utter uselessness of our reserve, our inability to apply the brakes while we were going too fast, the absence of any means to negotiate for measures of relief with other countries through a channel recognized by them as official, and finally the lack of modern American bills of exchange, which, while serving as the means of settling the daily balances of the nation, would have been assets on which the banks might have realized in Europe and in the United States, by rediscounting among themselves or at a central bank.

When the panic came, no outflow of gold had taken place, and no natural shortage of currency prevailed. Our existing per capita currency was very large, much in excess of that of most other nations, and there were hundreds of millions of currency in the banks and trust companies. But when, owing to an epidemic of distrust, people began to withdraw cash, it became strikingly apparent that our system was only a fair weather system, liable to absolute collapse in adverse times.

Where, as with us, there are no means of issuing additional currency against the best commercial assets, where the enormous reserves of cash, accumulated in the banks, cannot be used because each manager fears a run on his own bank if his reserves go below the 25% limit, it is inevitable that each bank must attempt to draw upon the reserves of every other bank, and that each will hesitate to pay out cash at a time when the panic-stricken public should be fortified in its confidence that its money is safe and that cash is coming out freely everywhere. Under such conditions the drain by the public must increase instead of being stayed, and it is inevitable that the

worst and most aggressive hoarder will come to be the bank or trust company, which, realizing that its 25% cash reserve is quite useless, will, as an act of self-protection, and because no other way exists, use every means of "building up" a reserve, by preying on its neighbors, at the very moment when reserves should by all means be decreased.

From such a system there can result only one consequence: a tremendous rise in interest rates and a tremendous fall in the price of securities; and if even these brutal effects do not attract foreign capital and do not convert the home depositor and hoarder into investors, a general suspension—politely called clearing-house certificates—must follow in order to prevent wholesale individual suspensions. Our system, in fact, did not permit us even to suspend scientifically. When New York began to issue clearing-house certificates and all the rest of the country had, as a natural consequence, to follow, the struggle for gold and currency became even more acute among the various cities, and a shameful gold premium which lasted for several months drained Europe's gold chests and brought needless harm and anxiety to our friends on the other side of the Atlantic.

Some years ago a stranger arrived late at night in a German town, and when he was about to leave the station, he saw that there was only one cab left. He hailed the driver, who, however, refused to move, and the policeman explained that as the law prescribed that one cab should always be in waiting at the station the cab could really not be allowed to leave! Ridiculous as this story may appear, it is quite applicable to our law which prescribes that the 25% reserve must always be kept intact.

It cannot be too strongly emphasized that our most urgent needs in addition to the creation of an elastic currency are concentration of reserves and the possibility of concerted action in lieu of our present system of decentralization.

Let us now consider what circumstances there are to prevent us from establishing a central bank similar to those found in the European systems. The chief difficulties are the existence of our bond-secured currency, the decentralization of our note-

issuing power and of our reserves, the lack of modern commercial paper on which to base an elastic currency, the existence of our obsolete usury laws, and finally the deep-rooted prejudice against anything bearing the name of a central bank, the fear alike of politics in business and of business in politics.

It is unnecessary to make a long argument against bond-secured currency. Only weak nations or a people in times of stress, generally during a war, have issued bond-secured currency, and every healthy nation as soon as it was again strong enough, has always abolished this obnoxious system of inflation. As long as we have this bond-secured currency, we cannot succeed in getting an elastic one. Bond-secured currency always expands, it hardly ever contracts. Our recent legislation, enacted last summer, was wisely created as a temporary measure only, since a far-reaching reform could not be successfully achieved in a hurry and without thorough research. The new law is an important step in advance, inasmuch as for the first time commercial paper is admitted as a basis for the issue of notes. But unfortunately the issue of notes against commercial paper is made dependent upon the previous issue of bond-secured currency to the extent of no less than 40% of the note-issuing power of a bank. This, and other conditions imposed upon such note issue, make the new currency an emergency currency, but not a healthy and normally elastic currency.

With elasticity we generally connect the idea of the rubber band. If we take an old and frayed rubber band, which has been stretched to its utmost capacity by holding together a large bundle of papers, we cannot make the old rubber elastic by tying to it a new piece of elastic band. Where this has been done we have indeed made room for more papers and when this new room is filled, some little elasticity will develop, but if the papers should then decrease below their previous maximum size, the rubber band will stay as it is—it will not contract. In order to have effective elasticity, the band must still fit tight when the bundle has been reduced to its smallest size. This means that in order to make the old band elastic we must shorten it considerably before we affix the new elastic

addition. In other words, we must first of all redeem our bond-secured currency so that our note issue may hereafter be able to contract in times of abundance and so that roughly from the lowest point upwards the note issue shall remain in healthy touch with the demand for currency.

In redeeming the bond-secured currency, two points will have to be borne in mind: the one is that it must be done without injuring the banks that now own these bonds, or it will never be done—and besides, to do it otherwise would be unfair; and the other is that we must be able to provide new currency when we withdraw the old, so that no scarcity will be artificially created.

If I were asked to suggest how this could be done, I should propose an inverse conversion of the bonds, *i. e.,* I should advocate the conversion of the present government bonds into bonds bearing a rate of interest higher by so much that after the privilege of issuing notes against them shall have been withdrawn, the bonds will sell just as high as, and possibly a little higher than they now sell with this privilege. This can be done gradually and in various ways; it would indeed mean an increase in the yearly interest charge to be borne by the United States, but it would put our bonds on a natural basis, like the English consols or French *rentes,* so that the American people could afford to own their own government bonds. In fact, this money, by securing a healthy financial system, and by protecting us from a repetition of past convulsions, would come back to us a thousandfold, and would constitute the best expenditure that our government could make.

In creating the new currency, we could probably follow the lines of the recent legislation, and provide for the organization of currency associations throughout the country. These associations, which should be open also for state banks and possibly also for trust companies, and which should be modified in many other respects, would discount the legitimate commercial paper handed in by their members and pass it on with their indorsement to the central issue department at Washington, which in turn would issue its notes against such guaranteed paper. Of course, such paper with such guarantee

should be taken at par, and not at 75%, as at present provided, and it should be taken at a uniform rate, to be published from time to time by the central issue department. The currency associations would receive from the institution handing in the paper a certain remuneration for every endorsement or guarantee executed by them. (Whether the profit, after paying for the running expenses and after having accumulated a large reserve fund, should in years to come be paid out to the members of the associations, in proportion to their pro rata of the guaranty, is a detail to be worked out later.) A most important consequence of such a development would be that we should break with our present dangerous system by which the banks are filled with single-name paper which they cannot resell, and which, under our present conception of banking, they could not attempt to sell without ruining their credit. The laws would, of course, have to be so amended that banks could indorse and accept freely as in Europe, and it will in time follow as a natural development that discount companies will be created, as in England, and that when money is in active demand in the South and offered freely in the East, the southern banks, instead of rediscounting with their association, will be able to rediscount frankly and openly in New York or in Boston or in Europe. If, as it is to be hoped, the currency associations and the discount companies will, at the proper moment, begin to establish two different rates for guaranteeing paper, a higher one for single-name paper, and a lower one for paper bearing in addition to the commercial signature the acceptance of a bank or banking firm, we shall give an added stimulus to the modernization of our paper. When our banks once feel that they can rely on being able to rediscount their legitimate paper, they will be able to purchase the same freely without, as now, running the risk of dangerously locking up their capital through such investment.

I have repeatedly dealt with this question and with the disastrous effects of our usury laws, and have tried to show that our system is in this respect directly opposed to the European system, and that our almost annual convulsions will perforce continue unless we make our commercial paper the quickest

asset and the basis of our banking, instead of using the stock-exchange call loan for this purpose.

As for the organization of such a Central Issue Department, I have also dealt with this question on previous occasions,[1] and I must not go fully into the details of that problem here. Suffice it to say that the board of trustees or directors should be composed of delegates from the various currency associations, of the Secretary of the Treasury, the comptroller of the currency, some members of the Senate and of the House, to whom some members of the commercial classes might be added by election of the stockholders. This body of men should elect two governors, salaried officers of highest standing and training, who would be retained in office as long as they are effective and honest, irrespective of the political party that may for the time being be at the helm.

The powers of the Central Department of Issue should be strictly limited, and should be as follows:

To discount paper, running not to exceed three months, for the various currency associations; to make advances against certain bonds (government bonds, savings-bank bonds, *etc.*) at uniform, published rates and up to certain percentages of their market value to be designated from time to time. (Whether such advances are to be made only through the currency association or also direct, is a detail which can be left open for the time being).

To buy and sell foreign bills running not to exceed three months and bearing at least three *bona fide* signatures.

To deal in bullion and to contract for loans of bullion.

To act as the depository of the treasury's money without giving collateral.

And finally, to receive deposits from the currency associations.

The Central Issue Department may issue notes which must be covered by gold or commercial paper; no less than one-third of the notes issued to be at all times covered by gold or legal tender.

[1] *Cf.* Defects and Needs of Our Banking System, and American and European Banking Methods and Bank Legislation Compared, *supra*, pp. 7 and 30.

A Central Department of Issue so constituted would be beyond any possibility of abuse for political or other purposes. The constitution of the board and the limitations of its power preclude any such possibility, however remote.

As the Central Department of Issue must command the highest possible confidence and as it is necessary to provide a strong gold purchasing power from the start, it is suggested that the department be endowed with a large stock capital of, let us say, $100,000,000. In order, however, to prevent any possibility of having the department administered with a view of earning large dividends for the stockholders, it is proposed to limit the dividends to a certain percentage, and after having accumulated certain reserves, to turn over the balance to the United States government. Whether or not, in consideration of such profit to be received, the United States should guarantee the notes, may be left for future consideration.

The bugbear that somebody might buy the control of such an institution may safely be dismissed. A man or a group of men purchasing all the stock would not derive the slightest profit from it, except the limited return on the investment. They could not appoint the board, and even if they could do so, they would not profit by it, as the department is restricted to a limited number of safe transactions.

The Central Department of Issue should have the right to ask from time to time that the banks, through the associations, deposit with it a certain proportion of their cash reserves, and the law would have to be amended so as to allow the banks to count as cash their deposits with the Central Department of Issue. The object of such an amendment is obvious, as the gold in the hands of the Central Issue Department can do thrice the amount of good that it can do with the individual bank, which, after the organization of a Central Issue Department, need not fear the withdrawal of cash so long as by rediscounting its sound and legitimate paper it can secure currency.

As for greenbacks and silver certificates, I believe that we could well afford to leave them untouched for the time being and possibly use the surplus to be derived from the profits of the Central Issue Department for the purpose of gradually re-

tiring the greenbacks. With the bond-secured currency redeemed and replaced by an elastic currency, it is conservative to hope that with the large exporting power of this country, we shall be sufficiently equipped to protect our gold, and that the greenbacks and silver certificates will represent no more than the pocket money of our large population. However, this scheme with all its details, as far as they can be outlined in this brief address, does not pretend to be the only solution of the problem; it is a suggestion, subject to many modifications. I have great hesitation in outlining it at all, for while the Monetary Commission is so seriously at work, accumulating material for thought and study, I should have preferred not to express any views at this time. However, as this most important question cannot be solved by the politician alone, nor by men of science alone, nor by the business man alone, I feel that we, each of us, must do our little share, when called upon, and I therefore accepted your invitation, though fully realizing my own shortcomings for such an undertaking.

The advantage of the scheme as outlined is, that instead of trying new experiments, it proceeds on lines which have been successfully followed in the most important financial centers. Conditions are too different with us to permit of an exact copy of any of the European systems; but the proposed plan would tend toward the gradual evolution here of conditions that, as we develop, would render the Central Issue Department more and more efficient and simple in operation.

Some schemes which have heretofore been advanced propose to leave the note-issuing power with the national banks, and to regulate their reserves and rates by a central board or similar institutions. I for one, do not believe in such plans. Their shortcoming is, that in order to be efficient they must interfere too much with the liberty of conducting business. For such a central board would eventually have to dictate the rates at which the banks would be allowed to take money or to lend money, and a general guarantee of deposits is only one of the logical consequences of such a scheme. As a matter of fact, under that scheme there would be one central board managing all the banks—an entirely new departure and much

more drastic than any central bank. If under that scheme such central interference were made less effective than above outlined, our present defects, *viz.,* the weakness of scattered reserves, and the danger of the decentralization of the note-issuing power into more than 6,500 banks, would remain as obnoxious as before.

Other schemes have been suggested, which propose to regulate the whole question automatically by a tax; but automatic measures cannot possibly meet in the most efficient way all the different eventualities that may arise. A drain from within must be met in a very different way from a drain from without, and a drain from both within and without will again have to be treated in a different way. How, then, can we hope to attempt to create one measure which by a tax will automatically meet all these varying requirements? Besides, these measures provide for inflation without creating new reserves or effective means to attract and retain the gold. Most of these measures will remain passive measures; they have scarcely any preventive or protective power at all.

Some people believe that we should imitate the Canadian system. Without going into the question whether a system that has proved a success for six million people would also be well adapted for a population of eighty-five or ninety millions, (and without discussing the point whether this system, like many others, could survive in the absence of the close relationship with the well-organized English banking community), we shall follow out only this one thought: The Canadian system is based on the small number of some 30 banks with branches in every hamlet. The minimum capital of a bank admissible by law is $500,000, but the majority of the banks have a much larger capital, some up to $14,000,000. Of our 6,650 national banks, 5,367 have a capital of less than $100,-000. Are all of these to go into liquidation? And would not a concentration of the whole banking power into the hands of a few gigantic institutions with branch banks bring about the very conditions which popular sentiment abhors, and which the government is striving to avoid?

The central bank system—and also the modified system of

a Central Issue Department—stands for sounder principles in this respect: it centralizes reserves and brings about the possibility of concerted action in the face of danger. By creating safe conditions, it makes the small bank independent and the danger of an overpowering individual control, instead of being aggravated, is for this reason immensely lessened by a Central Issue Department. Thus the Central Issue Department would protect the small bank and not menace it as is generally believed.

The Central Issue Department is sound also in this, that each transaction which it brings about, directly or indirectly, is a plain business transaction. If a bank desires its paper guaranteed by the currency association the bank pays the commensurate commission for such indorsement, and the guarantors earn the commission. If the currency association finds the security insufficient, it will refuse the business. Each transaction is an individual one, carefully scrutinized, and there is no unbusinesslike wholesale guaranty.

Nor is there any real interference; each bank deals with the currency association of its own free volition, and through it with the Central Issue Department. The Central Issue Department can post the rates at which it is willing to do business with others, but it cannot force anybody to do business at these rates, nor directly interfere with anybody's conduct of business. It is its indirect influence which is strong, and which is of the most beneficial effect.

Furthermore, it is a sound principle that the financial affairs of a nation should be guided not by an automaton but by will-power and brains behind the machinery, though strong restrictions must give the assurance that this will-power cannot go beyond certain safe lines. Such a system will be a vast improvement upon our present treasury organization, which is constructed on the one hand in order not to do what a central bank of issue ought to do and which, on the other hand, as a consequence of our defective system, has gradually vested in the Secretary of the Treasury more autocratic and dictatorial powers than any central bank manager could ever exercise.

Finally, banks are money-making concerns. Money mak-

ing and money issuing are two entirely distinct functions. It is precisely in order to abate eagerness in making money that the issuing of money at times must be rendered more difficult. Moreover, the note-issuing bank must be put beyond the danger of material losses and beyond the possibility of being drawn into individual transactions, for otherwise its credit will not be unassailable as it absolutely must be, even in times of the worst panic. The ordinary bank, on the other hand, has the duty of taking commercial risks and of carrying on individual transactions. That is why with us, as in every modern country, general banking and the issuing of notes must be kept separate.

I have avoided calling the institution of the future a central bank, because, as proposed here, it is not a central bank. If, instead of the independent currency association, this Central Issue Department were endowed with active branch offices dependent upon the head office, such a name would be correct. No doubt a central bank with active branch offices would be the more efficient, so far as concerns the controlling of the country's gold, its money rates and its financial safety. But with our present political and financial conditions, it would probably be impossible, and in many respect unsafe, to vest such vast powers and duties in one body. Though the system suggested by me may be a little less effective and more cumbersome, we must, for the beginning, at least, interpolate the currency association, or some similar institution, to stand as guarantor and examiner between the Central Issue Department on the one side and the local bank and its customer on the other. As our banking paper becomes modern, and as safe standards for the same develop, as we outgrow those financial and political dangers which are stronger in a country in its period of rapid growth than under conditions of more advanced and slower development, we may gradually—and it is to be hoped, soon—simplify the system. But it is safe to leave this further development to the future, provided that we now find the right principle for the establishment of a sound basis. In constructing such a basis, it is better to err on the conservative side than to attempt too big a stride at the beginning.

While we may disagree as to the extent to which a central bank system may be applied in the beginning, there cannot be the slightest doubt that the principle of that system must be adopted.

It is most surprising that so ineffective and obsolete a currency system as that of the United States should have been so long maintained by so eminently practical a nation. The explanation is that the wonderful resources of the country, its marvelous prosperity and natural everlasting credit balance against other nations appeared to legitimize and justify our system. The currency reformer has always been met with the argument that while theories might be good for poor little Europe, practise proved that the American system was sound enough for the United States. We had to live through last year's horrible crisis to learn that we had been prospering in spite of our system, not in consequence of it, and that, unless we effect a thorough reform, the future is bound to bring us similar disasters and similar disgrace as the past.

It is our duty to keep the memory of the crisis of 1907 fresh in our minds, for unless we grasp not only the danger but the certainty of its reappearance, we shall not realize the blessings and the absolute necessity of a central bank system in the United States.